

# The Role of Entrepreneurship and Social Capital in Building the Sustainability of SMES in Indonesia

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## ABSTRACT

Each type of small and medium industry has different problems from one another, so that some can develop rapidly, but some are only able to survive and even some have to go out of business. The success and sustainability of entrepreneurship are often linked to the aspect of luck, the weakness that is often carried out by SMES entrepreneurs is the lack of knowledge resources, the orientation of running a business focuses on technical aspects without considering strategic business aspects. Competitive aggressiveness means how firms react to competitive trends and market demands. Autonomy is defined as an independent action taken by an individual or organization aimed at bringing up a business concept or vision and bringing it to completion independently. Entrepreneurial orientation can increase the performance benefits of knowledge-based resources owned by the company. This is possible because the entrepreneurial orientation facilitates the organization's efforts to act on the information that comes from the internal and external environment. Furthermore, Social capital plays an important role in the entrepreneurial process, research shows that social capital is closely related to opportunity creation in several industries. Social capital is a network of relationships that allows its members to exchange and access various assets available in their industrial network. Seeing this phenomenon, this paper will discuss the importance of entrepreneurship and social capital in building the survival and competitiveness of SMESs in Indonesia.

**KEYWORDS:** SMESs, Entrepreneurial orientation, Social capital, competitiveness

## INTRODUCTION

The target of current economic development is not only large-scale industrial growth, but also people's economy. Social economic growth is marked by the development of the small and medium enterprises (SMESs) sector. SMESs have a strategic role in supporting the development of a country from the economic sector, both developing countries and countries with advanced predicate (Permana, et.al, 2017). In developing countries, SMESs are recognized as engines of economic growth and a key contributor to sustainable Gross Domestic Product (GDP) of all countries (Baidoun et al., 2018), including in Indonesia. Entrepreneurship is considered a solution to overcoming economic problems, especially in order to encourage the economy to grow and be able to increase technological development (Dissanayake, 2013).

The COVID-19 pandemic disaster has an impact on multi-sectors, the worst impact is on the public health sector which causes increased casualties, other impacts that must be addressed are the economic and business sectors. The tourism sector, trade sector and industrial sector also had a significant impact. The Indonesian government began to impose restrictions with social distancing and physical distancing policies since early March 2020, this has led to a decline in economic growth of up to minus 2.2% throughout 2020. Responding to these catastrophic events, the government still gave a signal that the economic wheels must be maintained. . This encourages business actors

including SMESs players to map what forms of strategy are most appropriate in an effort to survive and improve their organizational performance in dealing with the COVID-19 disaster, because during the pandemic it also affects changes in consumer behavior so as to create new lifestyles.

Entrepreneurial activities can provide opportunities for job creation (Sondari, 2014). This can be used as a belief that when Indonesia experienced an economic crisis that devastated the Indonesian economy in 1998, the economy after that year was felt to be very heavy for all industrial sectors, but entrepreneurs with the SMES business model proved resilient to survive the crisis, even capable of growing and developing so that many studies stated that the SMES business was the savior of the nation's economy at that time.. (Permana and Ellitan, 2020)

Each type of small and medium industry has different problems from one another, so that some can develop rapidly, but some are only able to survive and even some have to go out of business (Setiawan & Suwarnigdyah, 2014). According to Forbes contributor Neil Patel who is the cofounder of Crazy Egg, Hello Bar and KISSMEstrics, only 10% of new businesses survive and thrive, while 90% are created to fail. Seeing this phenomenon, this paper will discuss the importance of entrepreneurship and social capital in building the survival and competitiveness of SMESs in Indonesia.

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## The Role of Entrepreneurship Orientation in Building the Success of SMEs

Entrepreneurship is defined as a process to do something new and / or different as an effort to make people prosperous and provide added value to the surrounding community (Kao et al., 2002). Entrepreneurial actors must have creativity, courage in facing risks, dynamics in dealing with problems and understanding opportunities, but they also need direction and wisdom from existing networks. Entrepreneurship is a value creation that uses unique resources to obtain or exploit opportunities, this requires an entrepreneurial event and entrepreneurial agent. What is meant by entrepreneurial events are all things related to the conceptualization and implementation of a company, while entrepreneurial agents are related to individual or group characteristics regarding the attitude of responsibility to fight for successful entrepreneurial events (Morris & Lewis, 1995). Entrepreneurship has two components, the first is an attitude component related to the willingness of an individual or group to seize new opportunities and to take on the role of responsibility to make creative changes, this leads to an interpreted entrepreneurial orientation, while the second component is behavior that involves a series of activities needed to evaluate opportunities, define business concepts, predict and obtain the resources needed to run good business processes so as to obtain the expected organizational performance (Stevenson & Jarillo, 1990).

The success and sustainability of entrepreneurship are often linked to the aspect of luck, the weakness that is often carried out by SMEs entrepreneurs is the lack of knowledge resources, the orientation of running a business focuses on technical aspects without considering strategic business aspects. Apart from that, the planning was not formally prepared. Cost control is not carried out in a structured manner and most decision-making initiatives are only carried out by a few individuals, especially by business owners and are more intuitive in nature (Mile, 2007). Therefore, it is interesting to conduct a study that is able to illustrate that the phenomenon in the current context whether entrepreneurial actors strive for the success of an entrepreneurial activity are linked through a strategic management approach. The level of business failure is higher if formal strategy implementation is not carried out (Castrogiovanni, 1996), without a clear or formally structured strategy, the business has no basis in ensuring business continuity to create and or maintain a competitive advantage.

An entrepreneurial orientation can be interpreted as a way to be able to see how company management can uncover and exploit existing opportunities (Lumpkin & Dess, 1996). Entrepreneurial orientation is measured by five dimensions, namely: innovativeness (ability to innovate), proactivity (proactivity), propensity for risk taking (tendency to take risks), competitive aggressiveness (competitive aggressiveness), and autonomy (autonomy). Innovative means the willingness to support the process of experiment-based creativity in creating and introducing new products / services, having leadership that is familiar with technology and carrying out R&D in developing new processes. Taking risks means having the courage to take risky decisions such as in the act of venturing into an unknown new market. Proactive means how the company seizes the opportunity to take the initiative to pick up the ball in the market.

Competitive aggressiveness means how firms react to competitive trends and market demands. Autonomy is defined as an independent action taken by an individual or organization aimed at bringing up a business concept or vision and bringing it to completion independently (Lumpkin & Dess, 1996).

Through the investigation of entrepreneurial orientation, the company will be able to explain the existence of a managerial process that allows the company to be able to achieve a superior position compared to its competitors (Wiklund & Shepherd, 2003) this is because entrepreneurial orientation facilitates the company's actions to act based on early signs that come from the environment. internal and external companies. Entrepreneurial orientation leads to a strategic orientation of an organization, which includes aspects of specific styles, methods and practices of entrepreneurial decision making (Lumpkin & Dess, 1996).

Entrepreneurial orientation can be a way of measuring how a company is organized, and is an important entrepreneurial contribution to organizational performance, entrepreneurial orientation can increase the performance benefits of knowledge-based resources owned by the company (Wiklund & Shepherd, 2003). Some of the determinants of entrepreneurial orientation can come from the external environment, as well as those from organizational variables (Zahra, 1991). Entrepreneurial orientation is more focused on how companies are organized to conduct entrepreneurial endeavors, and pay attention to the role of knowledge-based resources on organizational performance (Wiklund & Shepherd, 2003). Investigating the influence of entrepreneurial orientation on the performance of SMEs is a concern for research, because every effort or action that involves decision making must begin with an interest or orientation to do so. Entrepreneurial orientation can be a way of measuring how a company is organized, and it is an important entrepreneurial contribution to organizational performance (McGrath, 1996). Entrepreneurial orientation can increase the performance benefits of knowledge-based resources owned by the company (Wiklund & Shepherd, 2005). Some of the determinants of entrepreneurial orientation can come from the external environment, as well as those from the internal organization. Entrepreneurial orientation is a way to find out how management / entrepreneurs can exploit the opportunities that exist. The dimensions of entrepreneurial orientation include, innovativeness (ability to innovate), proactivity (proactivity), and propensity for risk taking (the tendency to take risks). The managerial process of a company that is able to achieve a superior position compared to its competitors can be caused by the entrepreneurial orientation of the management / entrepreneur. Covin & Slevin conducted two studies at different periods with different results. Entrepreneurial orientation with profitability and company growth has a significant relationship (Zahra, 1991), entrepreneurial orientation can improve organizational performance oriented to knowledge-based resources by focusing on utilizing knowledge resources in exploiting opportunities (Wiklund & Shepherd, 2003). This is possible because the entrepreneurial orientation facilitates the organization's efforts to act on the information that comes from the internal and external environment (Lumpkin & Dess, 1996).

## The Role of Social Capital in Building the Sustainability of SMEs

Social capital plays an important role in the entrepreneurial process, research shows that social capital is closely related to opportunity creation in several industries (Bhagavatula et al., 2010). Social capital is a network of relationships that allows its members to exchange and access various assets available in their industrial network. Another definition of social capital is a type of capital that can create a competitive advantage for certain individuals or groups while pursuing their goals of achieving desired results. Organizations must pay attention to the importance of business, professional and friendship relationships as well as institutional relationships and relationships with local communities (Johannisson & Olaison, 2007). Social capital is divided into four categories (Hernández et al., 2017), namely; personal networks, networks of associative relationships, networks of professional relationships and networks of institutional relationships

Knowledge (knowledge) is the result of a person's reflection and experience, so that knowledge is always owned by individuals or groups. Knowledge (knowledge) is interpreted in language, rules and procedures, and concepts (Irma & Rajiv, 2001). There are two critical dimensions in understanding knowledge in an organizational context, namely knowledge in the form of tacit and explicit knowledge. Tacit knowledge is defined as knowledge that is obtained from various experiences and is difficult to define, and in general this knowledge is shared through discussions or stories. Tacit knowledge is defined as knowledge that is personal, tends to be specific, and is generally difficult to formalize and communicate to other individuals. Explicit knowledge is knowledge that has been formulated, generally presented in writing. In the organization the process of sharing knowledge can help in achieving organizational goals. Explicit knowledge is also understood as knowledge that can be transformed into formal and systematic language (Nonaka & Takeuchi, 1995).

Today's competitive competition, where the only certainty is uncertainty, knowledge is considered the main factor that differentiates business success as seen from the innovation ability of the company. Previous research has confirmed that effective knowledge management can facilitate the communication and exchange of knowledge required in the innovation process, and further enhance innovation performance through the development of new insights and capabilities (Argote et al., 2003). Knowledge management can play an important role in supporting innovation as part of entrepreneurial orientation. The effectiveness of the organization to act in a way that makes radical innovations depends on how the organization obtains and utilizes new sources of information. New knowledge has a positive effect on improving organizational performance from past conditions by allowing the organization to use information to control operations and exploit knowledge as a source of more innovative strategic responses to changing market opportunities.

Entrepreneurial orientation related to innovation women has a positive effect on non-financial business performance (Cho & Lee, 2018); Entrepreneurial orientation is a strategic pillar that has significant implications for better performance for organizations (Criado et al., 2018). The results of research conducted by Semrau (2016) show that all dimensions of entrepreneurial orientation which include

innovation, proactivity and willingness to manage risk have a positive and significant effect on SMES performance, but not all dimensions of entrepreneurial orientation variables have a significant effect on organizational performance. conducted by Cho & Lee, (2018) states that innovative and progressive affects the performance of non-financial businesses, but the tendency to take risks does not affect financial business performance and non-financial business performance. The majority of research states that business orientation can improve organizational performance (Cho & Lee, 2018; Criado et al., 2018; Semrau (2016).

Miller and Friesen (1982) found that increasing entrepreneurial orientation that is excessive can be detrimental to the company's financial performance. Entrepreneurial orientation has a significant impact on organizational performance when it gets the mediating effect of other variables, Lin (2017) uses dynamic capability variables in the form of absorptive capacity and boundary-spanning as mediating variables, and the results of the study show that the relationship between entrepreneurial orientation and organizational performance is stronger when receiving the effect. mediating the absorptive capacity variable, while the mediating effect of the boundary-spanning variable is weak. Joeng et al., (2019) examined the direct and indirect effects of entrepreneurial orientation on organizational performance, the knowledge creation process was operationalized as a mediating variable to explain the relationship between entrepreneurial orientation and organizational performance. Other research results show that the significance of the direct effect of entrepreneurial orientation on organizational performance is reduced when the indirect effect of entrepreneurial orientation through the knowledge creation process is included in the total effects model, consequently, entrepreneurial orientation is positively related to organizational performance, and the knowledge creation process plays a mediating role. in this connection (Li et al., 2009).

In the literature on entrepreneurship, the term social capital is generally defined as the ability of individuals to benefit from their social structure, networks and membership, these benefits are the benefits that individuals derive from their relationships with others, the structure of individual social networks and their location in the structure. where they operate (Nahapiet & Ghoshal, 1998). Social capital refers to the collective value of all social networks and the tendencies that arise from the networks to do things for one another (Putnam, 1993). In essence, this concept refers to the benefits that individuals derive from their social networks or their social ties with other parties.

Social capital is an important resource for individuals and organizations, as it can complement other resources that individuals and organizations control. Social capital plays an important role in the entrepreneurial process, research shows that social capital is closely related to finding or recognizing opportunities in several industries (Bhagavatula et al., 2010). A social capital network is a collection of current and potential resources derived from the relationships that make up the network. Nahapiet and Ghoshal, (1998) describe social capital ties as referring to relationships between people in a group who know each other well (for example, family members and close friends). Such bonds are associated with strong bonds, cohesiveness, trust, and reciprocity, which allow the exchange of resources between members (Davidsson & Honig, 2003a). Social



capital ties can facilitate efforts to achieve collective goals (Adler & Kwon, 2002).

Small-scale businesses must consider business, professional and friendship relationships as well as institutional relationships and relationships with local communities Hernandez, et al., (2017) explains that network relationships are divided into four categories, namely;

1. Personal networks in the form of relationships with relatives, friends, and neighbors (usually without hierarchy) and voluntary relationships, seen between individuals who have the same characteristics and interests.
2. Associative relationship network, namely the relationship between members and other members of the association who become entrepreneurs (such as business, professional, civil, labor, political, religious, cultural, social advocacy, or sports associations), usually this network is formal, on many occasions these groups are governed by explicit rules governing membership, commitment, and togetherness of members and how they relate to one another, be it internal or external.
3. A network of professional relationships with partners, workers, suppliers, customers and colleagues. Because they are related to professional activities, the context of these networks is more formal than those of personal networks and networks of associative relationships. This type of business network is usually oriented towards acquiring business-related resources.
4. Network of institutional relations with representatives or members of different public and private institutions. In the case of self-employment, this relationship refers to direct contact with, among others, government officials, public authorities, the media, financial institutions, or companies. These institutional relationships are usually not voluntary and are usually governed by very specific rules.

They are generally asymmetrical (vertical or hierarchical) and their quality depends in large part and on how good the institutional and legal environment in which business activities are carried out.

The success of a business is influenced by several factors, one of which is how a business is able to make a plan in managing the company. As a beginner, it requires a process of knowledge creation to ensure increased performance and business sustainability. Knowledge creation is considered an asset in competition and success (Nonaka and Takeuchi, 1995). Kim, N., & Shim, C. (2018). studied the influence of social capital on the growth of SMEs operating in Nairobi. The effects of social capital on performance have been studied extensively at various levels, across individuals, informally and small groups and extensively in the context of organized communities and across nations. Knowledge creation and knowledge characteristics are able to stimulate organizational creativity and improve organizational performance (Chung, 2019; Alshanty, AM, & Emeagwali, OL (2019). Companies with knowledge management skills will use resources more efficiently and be more innovative and perform better. Darroch, 2005 shows the importance of knowledge creation to improve the performance of SMEs and at a certain level of company scale, knowledge creation contributes to organizational performance. Mehralia et al.,

2018) concluded that knowledge creation as measured through the dimensions of socialization, combination, internalization and externalization has no significant relationship. significant towards company performance as measured through the BSC perspective, namely financial, customer, internal business processes and learning & growth. Alharthy, (2018), empirically shows that knowledge creation has a positive effect on organizational resilience capabilities, also shows that organizational resilience capabilities have a significant positive effect on organizational performance, but the relationship between knowledge creation, especially in the dimensions of adoption ability and organizational performance, is not significant in the context of a banking company. in Saudi Arabia. Muthuveloo, (2017) conducted research on the manufacturing industry in Malaysia where the results of the analysis showed that tacit knowledge management had a significant effect on organizational performance, but among the four dimensions, namely socialization, internalization, externalization and combination, only socialization and internalization contributed to the influence. significant to organizational performance.

### Conclusion

The influence of entrepreneurial orientation on performance in several previous studies there are differences in results, especially differences in the effect of each dimension of entrepreneurial orientation on performance. Social capital that describes the social relationships of business actors has a different effect on performance if we consider the context of place and time, this is reflected in previous research that has been previously described. Knowledge creation in this study is a mediation between entrepreneurial orientation and social capital on organizational performance, the context of the type and size of the organization and the context of location / country being the differences proposed in this study.

If summarized, the phenomena that have been presented in previous descriptions, then the relationship between entrepreneurial orientation, social capital, knowledge creation and the performance of MSMEs organizations in Indonesia. This article is expected to contribute to entrepreneurs in the culinary field, private bodies or organizations as well as governments who have an interest in creating new entrepreneurs. Business success is influenced by several factors, among others, the business must be able to make a strategic plan, and in planning this strategic planning get academic or professional advice on how to manage a company in an effort to maintain business continuity by maintaining and improving organizational performance (Baidoun et al., 2018). This article is expected to be material for academic studies for actors, observers of micro, small and medium enterprises, investors and regulators in Indonesia.

SMEs entrepreneurial activities provide opportunities for job creation for the welfare of the perpetrators and provide added value to the surrounding community, however the success and sustainability of entrepreneurship are often linked to the aspect of luck. Each type of UKM has different problems with each other, so that some can develop rapidly, but some are only able to survive and even a few have to go out of business. The weakness that is often made by SMEs is the lack of knowledge resources. The orientation of running a business focuses on technical aspects without considering strategic business aspects.

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